

As was demonstrated in prior sections of these comments, the interim rates are not appropriate for non-competitive areas. Because of minute of use and cost differences, the interim rates do not provide sufficient support for lower volume market areas. Support for, or contribution to, offsetting the higher cost per minute for low volume/high cost areas, which encompass rural areas of America will, under the interim rates, no longer be available except through the IC, which many wish to phase out and eliminate. Without this support or contribution from the IC, universally available access to the toll network by all Americans in all parts of the country (urban, suburban and rural) is in serious jeopardy. SWBT believes that an initiative must be undertaken now by all segments of the telecommunications industry and the regulators to preserve universally available access to the toll network.

With the introduction of further competition into the network via expanded interconnection and the introduction of interim transport rates (and the benefit that those rates afford to IXC's and new market entrants), must also come the commitment on the part of the IXC's, new market entrants, and the regulators to maintain universally available and affordable nationwide average MTS and WATS toll rates.⁶¹

This commitment to maintain affordable nationwide averaged toll rates will insure universally available, affordable toll services to all Americans and provides the protection that

⁶¹ Further, new market entrants must also share in the commitment to provide universally available telecommunications services through payments to current support mechanisms (USF, Lifeline, Linkup, etc.).

average toll rates will be available for low volume customers and rural America. At the same time, this does not in any way interfere with competition among the carriers or the development of a competitive market. The carriers would still be free to offer special, contract or other rates as long as affordable nationwide average rates were maintained. This approach would allow regulators and LECs the ability to maintain the support or contribution necessary by providing the flexibility to efficiently price transport access services outside of heavily competitive areas. In other words, in low volume areas, the LEC's would be allowed to increase transport access rates to levels that would maintain the revenue contribution necessary to support the high cost/low volume areas. This revision to the interim transport access rate structure, in conjunction with the Part 69 GSF change, would eliminate the need for the IC in the most economically efficient and cost effective manner without jeopardizing the affordability of toll service by maintaining existing universally available nationwide average toll rates. The removal of access pricing constraints across market areas would increase the disparity of access rates between the heavily competitive and other less competitive areas. However, this disparity would not affect end users of toll because of the nationwide average toll rates.

This alternative would minimize the need for the creation of new, inefficient and costly public policy support administration mechanisms, which would be required to maintain the revenues necessary to provide universally available access to the toll network. Further, this solution, which allows the LECs to

efficiently price transport access service, could be extended to other access elements and minimize the need for creation of future support mechanisms if and when other access elements are unbundled in order to promote further competition.

This option also minimizes the need to significantly increase the SLC or create a new non-minute of use recovery mechanism. Finally, this option does not cost the carriers any more in access than they are currently paying or will be paying with the interim transport rates and the IC.

In summary, with a commitment to maintain nationwide average affordable toll rates by the carriers, the LECs would be able to efficiently price transport access services differently in different market areas and thus would be able to maintain the contribution necessary to insure the continued provision of transport access services to all end users both urban and rural. This is the least complex and costly of the solutions which will accomplish the Commissions goals of:

- Promoting Competition;
- Promoting Economic Efficiency;
- Maintaining Universal Services;
- Avoiding Uneconomic Bypass, and;
- Promoting the Introduction of New Technologies and Services.

Finally, unlike other solutions which must be evaluated in a further phase of this proceeding or a new docket (a comprehensive review), this solution could be implemented relatively quickly in both the federal and state jurisdictions.

However, even this solution should be evaluated to determine if the level to which the transport access rates will rise in the low volume/high cost areas is appropriate. If the cost structure dictates that the resulting rate levels are inappropriately high and the Commission determines that they are contrary to public policy objectives, then it may be appropriate to set a level of low volume/high cost transport access rates beyond which the rates would not rise. In this case, the Commission must allow the LECs the flexibility to reduce those cost levels by means of capital recovery amortization.

B. Options 2-5 - More Costly and Complex (than Option 1) to Administer.

Options 2-5, Summarized on Attachment 15 would be more costly and complex to administer than Option 1. These options involve various combinations of the following components:

- Part 69 GSF cost allocation change
- Economically efficient pricing policies
- Capital Recovery Reform (i.e., Simplification of Depreciation Prescription - CC Docket No. 92-296 and amortization⁶² as alternative capital recovery approach)
- Public Policy Support Mechanisms

Options 2-5 include the Part 69 GSF cost allocation change as set forth in Option 1. Options 2, 3 and 4 combine economically efficient pricing policies (set forth in Option 1),

⁶² Amortization has been utilized by the Commission in the past to correct reserve imbalances and to recover costs of dying accounts. The amortization (set forth above) would serve a similar purpose, to alleviate problems inherent in the recovery of embedded investment (i.e., depreciation shortfalls and devaluation of investments resulting from rapid technological advancements coupled with pricing constraints from increased competition).

with aggressive capital recovery reform. Options 3 and 4 also include varying degrees of public policy support mechanisms, while Option 5 relies solely on public policy support mechanisms, to recover lost contributions (based upon the interim rate structure).

Aggressive capital recovery reform (identified in Options 2, 3 and 4) may be required as a result of Commission policies adopting the interim transport rates (which implicitly limits recovery of investment related costs) and increasing competition in the access arena (resulting in increased difficulty in recovering embedded investment in older, higher cost technologies). Therefore, aggressive reform (i.e., simplification and flexibility) may be required to allow LECs the appropriate methods to adjust capital recovery as dictated by their particular situation.

Under current rules and procedures, it is extremely difficult, if not impossible, to quantify and justify the total implications that technological advancements and increased competition have on the capital recovery process. And yet these two elements play a significant role in determining the average remaining life (ARL) and future net salvage (FNS), which are material components in the determination of depreciation rates.

This inability to quantify and justify total implications for capital recovery purposes, is resulting in a wide range of depreciation shortfalls and devaluation of investments.

SWBT believes the Commission should allow a special form of amortization⁶³ as an alternative and/or supplemental approach to capital recovery, as set forth in Options 2, 3 and 4). In this

⁶³ Id.

situation, amortization is the appropriate mechanism for recovery because it would incorporate simplification and flexibility into the recovery process. Further, it would provide an immediate alternative, outside the represcription process⁶⁴, which would allow LECs the ability to respond to technological advances and increased competition. With this alternative, depreciation shortfalls and devaluation of investments could be amortized and recovered over a short period, such as 3-4 years.

Next, as a companion to the capital recovery options, recovery must be allowed for the overhead costs arbitrarily assigned to the devalued plant by Parts 36 and 69. These are legitimate costs and essential to the support of all services and will not be eliminated with increased depreciation or amortization. With Option 2, these overhead costs would be recovered based on more efficient transport access rates in low volume/high cost areas. However, with Options 3 and 4 these costs would be maintained in a public policy element via a fixed cost support element designed to recover interstate transport overhead costs assigned to the IC by Parts 36 and 69. This cost support should be recovered by a non-minute-of-use charge from all service providers.

Additionally, with Options 2, 3 and 4, as a companion to the capital recovery reform, the directly related costs e.g.,

⁶⁴ The represcription process is designed to establish rates that accurately allocate plant costs to expense at a rate representative of actual consumption of the plant (i.e., remaining-life depreciation procedures). While this process would make the LECs whole over time, it does not incorporate the immediate relief required to respond in a competitive environment during times of rapid technological advancements.

recovery of maintenance and depreciation expenses as well as property taxes assigned to the devalued plant, are essential for the provision of universal access service to low volume/high cost service areas and must be maintained. In Options 2 and 3, this would be accomplished via recovery based on more efficient transport access rates in low volume/high cost areas. With Option 4 this can be accomplished through a low volume/high cost support element designed to maintain a portion of the support flows which were inherent in the previous average transport access rates. Very much like the current CCL long term support mechanism, (although pooling would not be involved here) this public policy support element could be generally designed as follows:

- Define transport and end office low volume/high cost markets.
- Establish a nationwide average interstate transport rate level (incorporating all transport costs).
- Establish, by LEC, the low volume/high cost level.
- If the low volume/high cost rate level is 115% of the national average rate level, then the difference in revenues between 115% of the national average rate and the revenue at the high cost rate would be assigned to a public policy element.
- This public policy element would be recovered by bulk billing the amount by each LEC to all service providers.

If capital recovery is not an option as assumed with Options 2, 3 and 4, Option 5 would place all low volume/high cost lost contributions in either a fixed cost recovery support mechanism or low volume support mechanism.

The most appropriate of Options 2 through 5 is Option 2 which incorporates capital recovery amortization and efficient

pricing. Even this Option, however, will be somewhat difficult to accomplish and administer. If the amortization of the devalued plant is initiated only for interstate, then complicated depreciation tracking procedures will be necessary. Additionally, Part 36 procedures may need to be evaluated to deal with normal jurisdictional cost shifts that will occur through the application of these procedures. On the other hand, if a total amortization is initiated, there will likely be a lengthy approval process to assure recovery of the amortization in the intrastate jurisdictions. However, if Option 1 is not adopted, Option 2 with an interstate-only amortization may represent the most appropriate means to deal with the IC. Options 3 through 5 are even more complicated in that they each, in varying degrees, require that public policy support mechanisms be established. In light of the varying degrees of complications involved with Options 2 through 5, SWBT continues to believe that Option 1 is the most viable option.

Finally, SWBT believes that if Option 1 is not adopted, the issues involving public policy support mechanisms, capital recovery of devalued plant and flat rate recovery involved in options 2-5 should be referred to a further phase of this proceeding or a comprehensive review for resolution. Until resolved, the IC must remain in place and recover the full and legitimate amount of residual revenue or revenue requirement from the Local Transport Access category. These mechanisms, when established, could be extended, if necessary, to also deal with other traffic sensitive access elements such as local switching when, or if necessary.

C. Option 6 - Least Desirable Option Which Shifts the Support Burden to the States.

If sufficient pricing flexibility is not adopted and if appropriate capital recovery and public policy support mechanisms are not determined to be feasible by the FCC, then the IC must remain in place until a comprehensive review of Parts 32, 36 and 69 is completed.⁶⁵ In order to accommodate transport competition and allow appropriate pricing, two possible options are: (1) evaluate selected Part 36 categorization and allocation changes which would more appropriately assign costs to interstate transport in light of the interim transport rate structure. For instance, if the exchange and interexchange categories were collapsed and the local and tandem switching categories were collapsed and allocated based on an appropriate measure of use, a significant reduction in interstate transport, as well as total interstate, costs would occur. Similarly, indirectly allocated costs, if allocated on an appropriate fixed basis could reduce interstate transport and total interstate; (2) Parts 32, 36, and 69 could be redesigned completely to more appropriately allocate costs to:

- Account for and assign direct costs on a technology rate element, and market (end office or tandem) basis rather than on a study area average basis.
- Assign directly related costs on a technology, rate element and market basis rather than on a study area average basis.
- Deal with the new public policy issues involving support for low volume market areas.
- Assign overheads based on the ability to recover in competitive markets. (There is no correct way to

⁶⁵ Expanded Interconnection With Local Telephone Company Facilities, CC Docket 91-141, Second Notice, at paras. 54-55.

allocate overhead; any allocation is inherently arbitrary).

Unfortunately, even though it may be necessary to evaluate and implement this option, it will likely shift significant costs to intrastate for recovery. This problem may be compounded by further intrastate cost shifts to local if, or when, the interim structure adopted by the FCC is implemented in the intrastate jurisdictions. Finally, implementing this option, which involves a Joint Board, will likely be a lengthy process. Again, SWBT believes that options discussed previously, in particular Option 1, provide more appropriate solutions for the IC.

VI. OTHER ISSUES

- A. The Costs in the Interconnection Charge Are Traffic Sensitive Based on the Current Cost Allocation Rules of FCC Part 36 and 69.

The Commission requests the parties to identify which costs recovered through the interconnection charge are traffic sensitive (TS) and which are non-traffic sensitive (NTS).⁶⁶ From the standpoint of the way costs associated with transport are allocated using the FCC's Part 36 Separations Manual Rules and the Part 69 Access Charge Rules, all of the costs identified with the IC are currently allocated on a traffic sensitive basis. The basic Central Office Equipment (COE) and CWF investment costs underlying transport are allocated between jurisdictions based on traffic sensitive elements, such as circuit miles, terminations, conversation-minutes, and conversation-minute-miles. Plant

⁶⁶ FNPRM, at para. 138.

specific costs⁶⁷ are allocated between jurisdictions on the related investment. Plant non-specific costs⁶⁸ are allocated between jurisdictions and to the access categories on either related investment or a combined investment amount such as Telecommunications Plant in Service. Even GSF, which is allocated on Big 3 Expenses⁶⁹ for separations purposes or investments which include COE and CWF for FCC Part 69 access cost allocations, is indirectly allocated on traffic sensitive usage. Only the GSF costs inappropriately allocated to Transport due to the exclusion of CWF Category 1.3 could be considered non-traffic sensitive.

The two charts in Attachment 16 show the traffic sensitive nature of Part 36/69 cost allocations associated with transport. Any changes in the accounts shown in the columns at the top of the matrix result in changes in the accounts identified in the rows on the left where there is an X or x indicated at the intersecting row and column. For example, a change in the allocation of the interstate usage of CWF interexchange plant (Account 2410) would result in changes in ALL of the accounts in the column where an X or x is indicated. In both charts the columns for COE and CWF are highlighted to show the accounts impacted by a change in COE or CWF. From a separations perspective the only accounts that are not impacted by a change in COE or CWF

⁶⁷ COE - 36.321 and 69.401(b); CWF - 36.341 and 69.401(c)) (Account 6510 - 36.352; Account 6530 - 36.353; Depreciation Expense - Account 6560 - 36.361)

⁶⁸ Account 6510 - 36.352; Account 6530 - 36.353; Depreciation Expense - Account 6560 - 36.361

⁶⁹ Big 3 Expenses includes the COE and CWF related Plant Specific Expenses

are Account 6540 -Access Expense, Account 6610 - Marketing Expense and Account 6620 Customer Services Expense. Changes in the amount of transport traffic would result in separations factors being changed for the appropriate COE and CWF investments, which would in turn impact all of the other accounts shown on the chart. From an access charge - FCC Part 69 standpoint, only Account 6540 - Access Expense would not be impacted by a change in COE or CWF.

The information above and the information on the two charts show that all of the costs associated with the IC, subsequent to the implementation of the GSF change contemplated in CC Docket No. 92-222, are traffic sensitive from the viewpoint of the FCC's cost allocation rules in FCC Parts 36 and 69.

From an economic standpoint however, some of the costs in the IC clearly are "joint and common", even considering the Part 36 and 69 traffic sensitive allocations. Consequently, from a ratemaking perspective and from an economic standpoint, it may be appropriate to provide for recovery of these common costs through a fixed or flat charge (Non-MOU Sensitive) irrespective of Part 36 and 69 NTS and TS distinctions.

B. Reuse of Facilities Will Result in Both Increased Revenues and an Increased Allocation of Costs.

No decrease of the IC as a result of reuse should be adopted by the Commission.⁷⁰ Since the costs associated with the IC are traffic sensitive from a Part 36 and 69 cost allocation perspective and would increase as additional usage occurs, the reuse of facilities would change the allocation of costs, and the

⁷⁰ See FNPRM, at para. 136.

changed costs would be consistent with the change in revenues. Reusing facilities for interstate purposes would increase the costs allocated to the interstate jurisdiction and the costs allocated to transport via Part 69. This would be consistent with an increase in the transport revenues because of the reuse of spare facilities. However, if adjustments were made to decrease the revenues because of reuse, the overall revenues would decrease, but costs would increase, since the relative interstate use of facilities has been increased. This would put SWBT in a double jeopardy situation of being forced to decrease the revenues and being forced to increase the allocation of costs to comply with FCC Part 36 rules. This situation would result in an effective confiscation of SWBT's resources with no possibility of recovery.

Additionally, Price Cap rules do not support rate reductions as a result of subsequent reuse of existing facilities. In fact, the productivity offset embedded in the Price Cap Index (PCI) formulas presumes ongoing productivity associated with efficient use of facilities. Under the rules of the LEC Price Cap plan, PCIs are reduced each year by 3.3% (or 4.3% at the LEC's option) to reflect an expected productivity gain, in addition to the changes associated with inflation and exogenous costs. A LEC only has the opportunity to increase its earnings if its actual productivity gain exceeds this rate adjustment amount.

One method of increasing productivity (reduction in unit cost) is the reuse of facilities to provide additional units of service and revenue without additional cost. Since a productivity increase of 3.3% (or 4.3%) is automatically flowed through to

interstate rates, any additional explicit rate decrease associated with the utilization of reused facilities would double-count expected productivity gains and would represent an additional penalty not contemplated by the Price Cap plan or supported by the Price Cap rules.

If IXCs reconfigure their networks in the absence of a restructure and the disconnected facilities are reused in the future, there would be no reduction in LEC revenues nor any required price decrease under the price cap rules. As mentioned previously, the effect of reuse will be reflected through the application of the productivity offset. Therefore, an adjustment for the reuse of facilities should not result from a restructure when it would not have occurred in the absence of a restructure.

Also, it is anticipated that as the IXCs reconfigure their networks, the facilities available for reuse will be the older technology with a reduced capability to support new services.

C. Cap of the IC Revenues.

As discussed above, the fact that the underlying costs of the IC are recovered by a traffic sensitive rate element based on Part 36 and 69 rules supports not placing a cap on the IC revenues.⁷¹ As MFS suggests, without a cap, as usage increases, the corresponding IC revenues will also increase.⁷² This increase in revenues is consistent with an increased allocation of costs dictated by FCC Part 36 and 69. As the relative interstate usage increases, additional costs, including those initially associated

⁷¹ FNPRM, at para. 138.

⁷² Id.

with the IC will be allocated to the interstate jurisdiction. To the extent that those costs are transport related, they would be allocated to the transport category using the FCC Part 69 Rules.

Example:

	<u>MINUTES</u>	<u>RELATIVE USAGE</u>
CURRENT		
Interstate Minutes	10,000,000	66%
Intrastate Minutes	5,000,000	33%
TOTAL MINUTES	15,000,000	
FUTURE		
Interstate Minutes	11,000,000	69%
Intrastate Minutes	5,000,000	31%
TOTAL MINUTES	16,000,000	

The increase in interstate usage will result in both an increase in interstate revenues and in costs allocated to the interstate jurisdiction using the FCC's Part 36 Rules. The increased usage will result in the increased cost allocation under any circumstance, but to deprive the LEC of the associated revenue would amount to a confiscation of the LEC's resources. Again, this would cause Price Cap LECs to face an additional productivity increase not contemplated the Price Cap rules. Further, the Price Cap rules effectively already place a cap on the IC revenue amount at the total Traffic Sensitive Basket level. Also, as discussed in the previous section concerning adjustments for reuse, the price cap sharing mechanism serves as an additional constraint.

D. Third Party Administration of the Interconnection Charge is Unnecessary.

The Commission requested comments regarding the need to establish a neutral third party administrator for the interconnection charge. This is unnecessary since the public nature of virtually all exchange carrier cost data is currently

reported through annual tariff filings, ARMIS reports, and rate of return reports. This would represent an unnecessary and an additional burden on the Commission to establish and oversee the "neutral" third party, as well as the additional cost to the industry, which would ultimately be recovered from end users.

VII. THE PROPOSED PRICE CAP BASKETS ARE INADEQUATE TO MEET THE DEMANDS OF A COMPETITIVE ENVIRONMENT

In the FNPRM, the Commission seeks comment on its proposal to establish baskets that separate more competitive services from less competitive services and to place special access and transport in one transport basket with six service categories.⁷³ Four of these service categories would be the same service categories that exist now for special access, another service category would consist of direct-trunked transport and entrance facilities, and the last service category would include tandem-switched transport. The Commission proposes to use the same banding requirements for special access that are applied today, and to use the banding requirements for tandem-switched transport, direct-trunked transport, and the interconnection charge as set forth in the Interim Transport Order.

In addition, the Commission seeks comment on whether the tandem supplement should be included in the proposed transport basket or in a less competitive switching basket.⁷⁴ The Commission also asks if the interconnection charge should be in a basket by

⁷³ FNPRM, at paras. 144-145.

⁷⁴ FNPRM, at para. 144.

itself, or if it should remain in the traffic sensitive switched basket with local switching and information.

The proposed price cap basket design prevents LECs from being able to adequately respond to customer needs and inappropriately restricts LECs from responding to current and future levels of access competition. Therefore, SWBT supports the total restructuring of the price cap baskets consistent with an overall restructuring of access service. As such, SWBT believes the proposed changes are too restrictive and unnecessary.

Specifically, SWBT does not support the use of price cap baskets as an appropriate means of separating more competitive services from less competitive services. With the implementation of expanded interconnection for both special and switched access, all access services will be subject to competition. Even though all services are not ubiquitously competitive, separate baskets for competitive services are not appropriate because all services are competitive in some market areas.

The price cap basket design proposed by the Commission does not provide the LECs with the pricing flexibility needed to respond to this competition and to customer needs. Specifically, separate service categories for direct-trunked and tandem-switched transport are neither necessary nor justified. Tandem-switched transport price changes will be upwardly constrained by the availability of relatively less expensive direct-routed transport alternatives, including LEC direct-routed transport, if prices decrease as the Commission expects. This market restraint was not present in the prior access charge structure and has not been

adequately recognized in the Commission's decisions. Future increases in the tandem charge portion of tandem-switched transport prices contemplated by the Commission⁷⁵ will further constrain other tandem-switched transport price increases by making direct-routed transport more attractive. Tandem-switched prices will also be constrained by the Commission's proposal to facilitate tandem competition. The SWBT price cap basket restructure contained in these comments is a more appropriate structure which, when coupled with the influence of competitive market conditions, provides more than adequate safeguards against anti-competitive revenue shifting.

In addition, SWBT believes the banding requirements incorporated in the interim structure are more restrictive than what are currently available to price cap LECs and are therefore, inappropriate. The Commission should adhere to the original price cap objectives of providing increased pricing flexibility, especially considering the increased competition that the LECs will be experiencing. Only with increased LEC pricing flexibility will the full measure of the benefits of access competition be realized.

SWBT also does not support including tandem switching in a Transport basket. Rather, as discussed previously, SWBT supports including tandem switching in a restructured Switching price cap basket along with all other switching functions. SWBT likewise believes that the IC should be included in the Public Policy basket.

Consistent with the SWBT position that with the implementation of Switched Access Expanded Interconnection a

⁷⁵ FNPRM, at fn. 134 and para. 132.

comprehensive restructure of access must occur that includes a long term transport structure, SWBT proposes a more appropriate restructuring of the price cap basket design that would group price cap rate elements, for price management purposes, into four (4) price cap baskets, Switching, Transport, Other and Public Policy. These baskets are consistent with the functional service access category groups. Attachment 17 depicts the proposed price cap basket design.

The revised baskets would allow rates for equivalent functions, such as switched transport and special transport, to be grouped in the same basket. These baskets would also more readily accommodate new services such as Integrated Services Digital Network (ISDN), configurable private line, or software defined network offerings, which combine functions which would be considered "switched" and "special" under the current structure.

The following is an outline of access categories, which should be established as baskets and be incorporated in FCC Part 61:

- SWITCHING - This basket could include:
 - All current switching functions (including tandem switching);
 - New switching functions; and,
 - Features associated with switching, such as signalling and data base services.
- TRANSPORT - This basket could include:
 - All interoffice transport, regardless of whether the transport facility is associated with a switched or dedicated service;
 - All facilities provided under interstate access tariffs between the local serving office and a

customer's premises (this would include current special access channel terminations, as well as entrance facilities between serving wire centers and customer premises); and,

- Any features associated with transport, such as line conditioning.
- OTHER - This basket could include:
 - Interexchange; and,
 - Any other rate elements which do not fit into the Transport, Switching or Public Policy baskets.
- PUBLIC POLICY - This basket could include:
 - Lifeline Assistance;
 - Universal Service Fund;
 - EUCL Charge;
 - Carrier Common Line (or substitute recovery mechanism)
 - Long Term Support
 - Interconnection Charge
 - Any other elements established for public policy purposes.

Within the Switching basket and the Other basket, a price cap category would be established for each IMA, i.e., zone or study area. Within the Transport basket, separate "digital" and "other" price cap categories would be established for each IMA. A single price cap category containing all applicable TMAs would be established within each basket. The Public Policy basket would not contain IMA and TMA category designations. However, separate price cap categories may be established for elements in the Public Policy basket. This price cap architecture would provide a safeguard against revenue shifting between the IMA and the TMA.

For the Switching, Transport and Other price cap baskets the API cannot exceed the respective PCI for that basket. Elements within the Public Policy basket would be individually managed.

In addition, SWBT proposes the following banding criteria for price cap categories: (1) for IMAs, price changes would be limited to +5/-10% (five percent increases or ten percent decreases); (2) for the TMA, price changes would be limited to +5/-15%; and, (3) for CMAs, there would be aggressive competition and therefore, would be outside of price caps.

The Commission has established no rationale for the imposition of additional service categories or banding restrictions as a result of the proposed restructuring of switched access rates. The Commission has already recognized that increased competition should be accompanied by increased pricing flexibility.⁷⁶ That basic finding should be applied to LEC price cap regulation as well.

VIII. CONCLUSION

Based on the reasons set forth herein the long term rate structure should give LECS the pricing flexibility needed to deal with the IC and compete as outlined in these comments. The

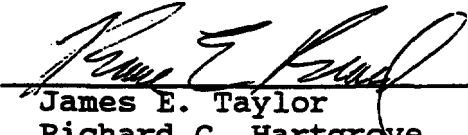
⁷⁶ Competition in the Interstate Interexchange Marketplace, CC Docket No. 90-132, Report and Order, released September 16, 1991, (FCC 89-91) at paras. 8 and 188.

implementation of switched access expanded interconnection should not precede the adoption and implementation of such a long term rate structure. Additionally, the IC should not be phased down, but must be maintained until appropriate solutions are adopted by the Commission only after evaluation in a comprehensive review.

Respectfully submitted,

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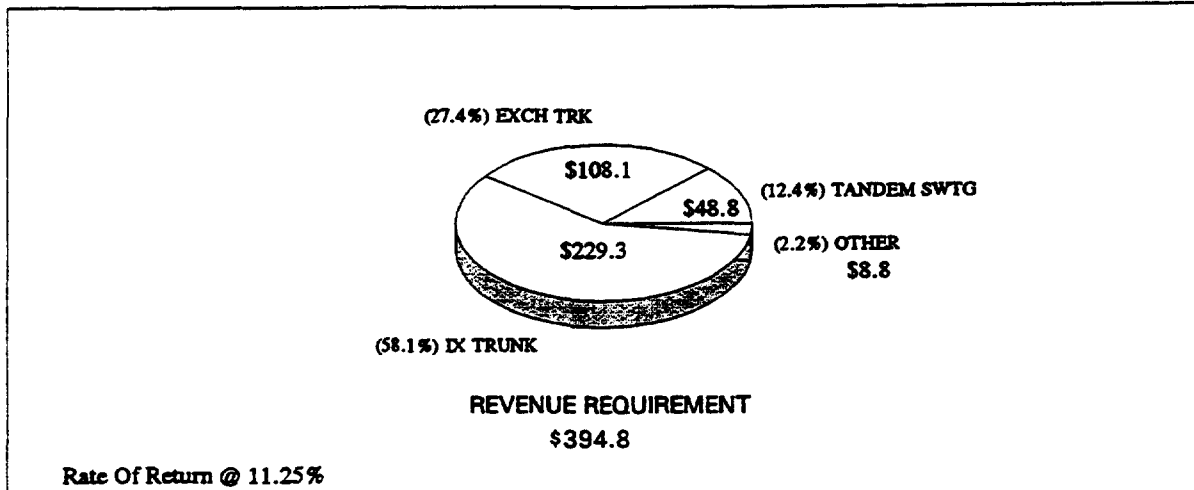
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Legitimate Costs Are Assigned To Transport

Southwestern Bell Telephone Company



1992 Estimated Transport Revenue Requirement (Millions)						
LINE	CATEGORY	EX TRUNK	IX TRUNK	TANDEM	OTHER	TOTAL
DIRECT ALLOCATIONS						
1.	CENTRAL OFFICE EQUIPMENT	235.0	380.8	133.8	12.1	761.7
2.	CAT 2-TANDEM SWITCHING	0.0	0.0	133.8	0.0	133.8
3.	CAT 4.12-NON-WDBD	235.0	0.0	0.0	0.0	235.0
4.	CAT 4.23-IX CKT	0.0	380.8	0.0	0.0	380.8
5.	CAT4.3-HOST/REMOTE CKT	0.0	0.0	0.0	12.1	12.1
6.	CABLE AND WIRE EQUIPMENT	69.0	265.9	0.0	7.9	342.3
7.	CAT 2-EXCH TRK-NONWDBD	69.0	0.0	0.0	0.0	69.0
8.	CAT 3-IX	0.0	265.9	0.0	0.0	265.9
9.	CAT 4-HOST/REMOTE	0.0	0.0	0.0	7.9	7.4
10.	COE & C&WF RESERVES (DEP AND DEF TAX)	163.3	340.8	77.0	11.4	591.5
11.	DIRECT NET INVESTMENT ((L1 + L6)-L10)	140.6	305.9	56.8	8.5	512.5
12.	RETURN & INCOME TAXES (DIRECT)	20.4	45.0	8.2	1.4	74.9
13.	% DIRECT ALLOCATIONS	18.9%	19.6%	16.8%	16.2%	19.0%
DIRECTLY RELATED ALLOCATIONS						
14.	COE & CABLE & WIRE-MAINTENANCE	15.6	32.5	7.1	1.1	56.3
15.	COE & CABLE & WIRE-DEPR	23.6	45.8	11.3	1.5	82.1
16.	PROPERTY TAXES	1.8	3.9	0.8	0.1	6.6
17.	DIRECT EXPENSE (L14...L16)	41.0	82.2	19.2	2.5	145.0
18.	% DIRECT EXPENSE TO REV REQ	38.0%	35.8%	39.4%	28.4%	36.7%
INDIRECT ALLOCATIONS						
19.	GENERAL SUPPORT FAC & OTHER INV	117.3	230.9	50.4	8.5	406.6
20.	GENERAL SUPPORT FAC & OTHER RESV	48.4	97.2	21.3	3.7	170.3
21.	GSF AND OTHER NET INVEST (L19 - L20)	68.9	133.7	29.1	4.9	236.3
22.	RETURN & INCOME TAXES ON INDIRECT	10.0	19.6	4.2	0.7	34.5
23.	CUSTOMER OPERATIONS EXPENSES	4.2	8.8	2.0	1.3	16.3
24.	NETWORK AND GENERAL SUPPORT	7.6	18.5	3.5	0.6	30.1
25.	NETWORK OPERATIONS	6.7	14.7	3.0	0.5	25.0
26.	GENERAL SUPPORT FACILITIES-DEPR	5.5	10.5	2.3	0.4	18.7
27.	OTHER-DEPR/AMORT	0.2	0.6	0.1	0.0	1.0
28.	CORPORATE OPERATIONS	9.5	20.5	4.4	1.0	35.3
29.	OTHER	2.9	8.9	1.8	0.4	14.0
30.	COMMON/INDIRECT EXPENSE (L23..L29)	36.6	82.6	17.1	4.2	140.4
31.	TOTAL COM/INDIRECT COSTS (L22 + L30)	46.7	102.2	21.4	4.9	174.9
32.	% COM/INDIRECT TO REV REQ	43.1%	44.6%	43.8%	55.4%	44.3%
33.	NET REVENUE REQUIREMENT (L17 + L31)	108.1	229.3	48.8	8.8	394.8

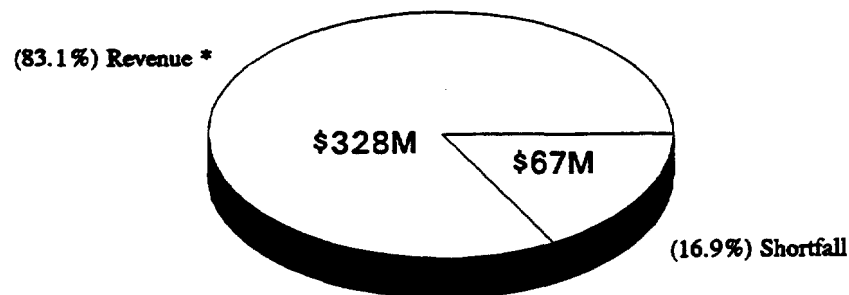
SOURCE: January thru August 1992 actuals (annualized)

Estimated Size of The Interconnection Charge

Southwestern Bell Telephone Company

CURRENT STRUCTURE

1992 Part 69 Revenue Requirement @ 11.25% = \$395M



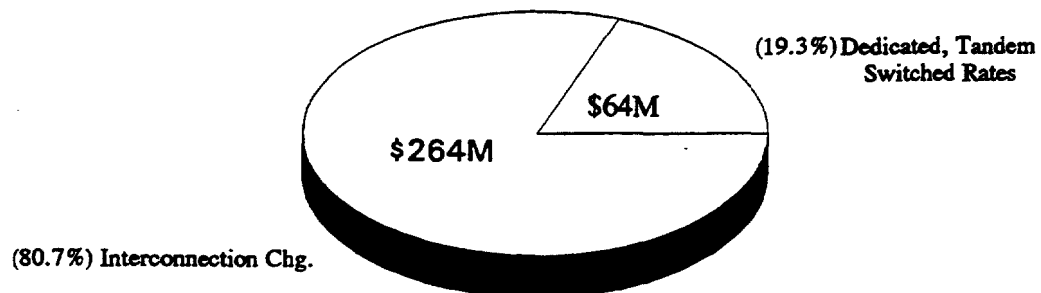
Shortfall is caused by:

- o Pricing flexibility allowed under price caps permitted local transport rate reductions and offsetting increases in other rate elements

*1991 base period demand times current rates

Interim Transport Structure

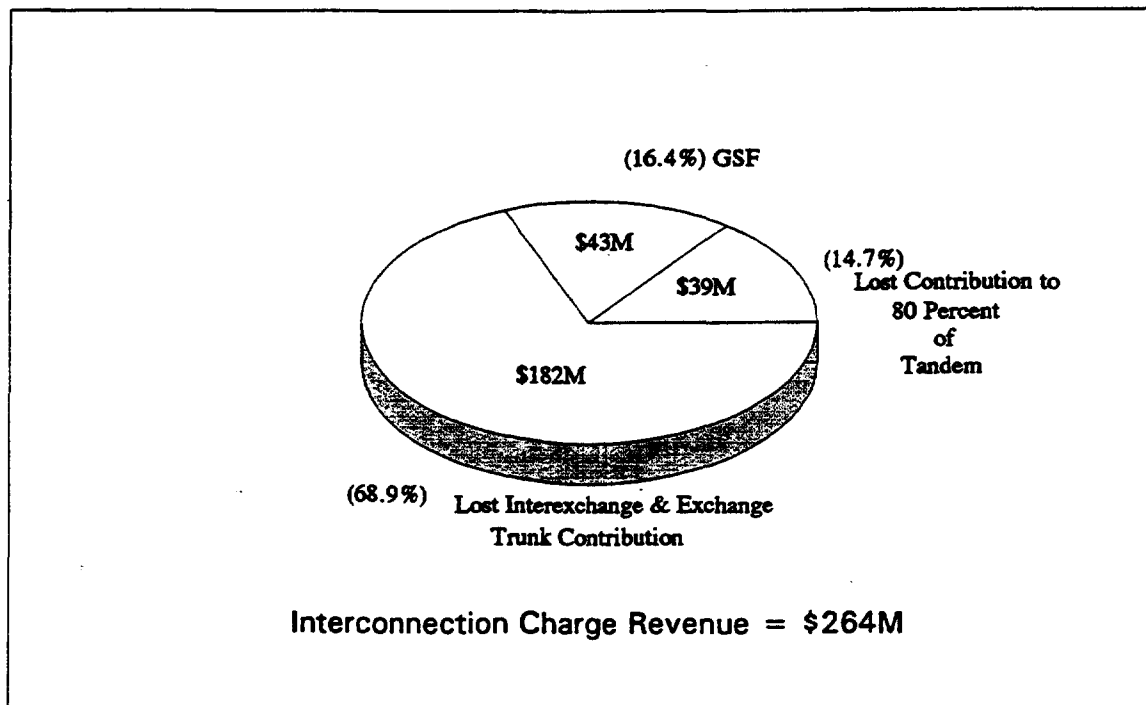
Total Estimated Revenue = \$328M



Assumes Docket 91-213, Scenario 9.3 Rate Structure

Analysis of Interconnection Charge Revenue Amount

Southwestern Bell Telephone Company



Lost Contribution:

- o Includes lost recovery under the interim rates of amounts related to low volume/high cost routes (encompassing rural areas serviced by SWBT).

Tandem Switching:

- o The modified rate structure ordered by the Commission includes 80 percent of the tandem revenue requirement in the Interconnection Charge.

GSF:

- o General Support Facilities - Current Part 69 Rules for GSF allocation inappropriately increase the costs assigned to Transport by approximately \$43M.